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TO: Arthur Levitt and Donald Nicolaisen, Co-Chairs
Advisory Committee on the Auditing Profession
FROM: James A. Largay III, Ph.D., CPA, Jack W. Paul, Ph.D., CPA, Heibatollah Sami, Ph.D.
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SUBJECT: Testimony on Education for the Accounting Profession

As three collegiate educators with nearly 100 years of combined experience educating promising young accounting students, we read with interest Mr. James Turley's written testimony before your group. We are intrigued by the proposals relating to accounting education on pages 4-5 of his testimony. In an era that cries out for more capable accountants and auditors to cope with the growing complexity of business transactions and aggressive preparers surging ahead of authoritative accounting guidance, the testimony proposes:

- That the work experience and in-house firm training that long characterized public accounting be elevated to the status of "traditional undergraduate and graduate classroom learning," and
- That the Federal Government, through the Treasury Department, determine "guidelines for the body of knowledge that would constitute an 'undergraduate accounting education' and a 'graduate accounting degree'."

In view of the audit failures of the past, we are of the opinion that these would be moves in the wrong direction. We are of the further opinion that many of the problems in past audits flow from an antiquated public accounting firm business model and will not be fixed by a 150-hour educational model that does not explicitly require graduate education.

It is instructive to first review the accounting profession today and try to discern why it is only a shadow of its former self:

- In 1972 the accounting profession lost its franchise to set accounting standards to the FASB
- In 2002 the accounting profession lost its franchise to set auditing standards to the PCAOB in the wake of the Sarbanes-Oxley Act
- The well-respected accounting profession of the past has become known as the *auditing industry* of the present, as its standardized audit routines and legions of inexperienced staff auditors mesh to emulate the mass production more characteristic of industry than of a profession.

Much of the decline came about because of a rash of financial accounting frauds in the last several decades in which auditors were seemingly asleep at the wheel. In 1989, a solid majority of AICPA members voted for the increased educational requirements for accountants now phasing in at the last of our U.S. jurisdictions—the so-called 150-hour requirement—in an effort

to turn things aright. Unfortunately, the 150-hour model currently in place does not explicitly require graduate education—students can attain the extra 30 hours beyond the bachelor's degree by taking more undergraduate hours not in business or accounting, even “pass-fail” classes.

Thus as it stands today, students need not complete any specialized education beyond the baccalaureate degree to become an auditor. We believe that more university education is needed, not less, because the rigor and free flow of ideas that characterize the academic environment's ability to stimulate good thinking and the desire to excel cannot be achieved in companies' training programs. We also believe that the additional education should be in graduate subjects that prepare students for the rigors of the public accounting profession.

Most undergraduate accounting programs provide an excellent foundation in preparing financial statements based on current accounting rules. Time constraints, immaturity, and the need for breadth in the liberal arts preclude students from attaining more than a cursory understanding of business operational strategy, firms' accounting and finance models, and business risk analysis.

The above topics are a necessary part of auditing because auditors' must understand their clients' businesses to be able to assess those clients' business risks. In too many cases, new hires from undergraduate programs are placed on audits of large companies with little knowledge or appreciation of the client's operational, accounting, and finance models and overall strategies. New staff often do not grasp the “big picture” so necessary for an understanding of a client's risks, which in turn drive evidence-gathering decisions. It is essential to have front-line employees with a thorough knowledge of clients' business models, an outcome difficult to attain in firms' training programs. What graduate education does best is provide students with the knowledge of underlying models that drive business results: accounting models, operational and financial strategies, business risk analysis, and sound corporate governance practices.

We also believe that a fundamental problem is created by public accounting's century-old business model—each year hordes of new young audit staff are hired, turned loose on audits, and then depart in droves for different work a few years later. The models of other professions, such as law, medicine, and architecture, should be seriously considered for the auditing profession. In many professions graduate education is an integral part of the model, unlike public accounting. Those professions emphasize the full use of the knowledge base through individual expertise, not the mass production concept indicative of today's large public accounting firms. Although the size and complexity of global enterprises pose a serious challenge, we believe public accounting firms could do a better job of utilizing the talents of their people. Each audit professional should be equipped with the audit risk knowledge that drives audit evidence decisions. Graduate education seems to us to be critical in bringing about such changes.

Education increases understanding, maturity and “savvy.” We very much share Mr. Turley's concerns and hopes for the auditing firms. But we do not believe that these concerns will be alleviated, or the hopes achieved, by rolling back the educational requirements for entry into an industry seeking to regain its professionalism.

Please note that these views reflect our own best professional judgment, and may not be the views of our employer.